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DIRECTORATE OF INTELLIGENCE

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CHINA: Increased Attention to Western Europe []

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Summary

China is cultivating closer ties with Western Europe as part of its efforts to develop a more flexible posture vis-a-vis the United States and USSR. This renewed push also reflects China's interests in putting Chinese-European relations on a firmer footing, as well as attempting to insulate them from possible future US-Chinese strains, and to undercut Taiwan's growing links with the region. []

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The Chinese have sought to enhance their image in Europe over the past year by being more even-handed in their criticism of both superpowers and by siding increasingly with the Europeans against the United States on contentious economic issues that strain the NATO alliance. They also have adopted a more positive public stance toward the European peace movement in an attempt to appear more sensitive to European public opinion on security issues. []

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This shift is largely tactical in our view and does not represent a lessening of Chinese support for NATO. On the contrary, China continues to warn against Soviet designs in Europe and elsewhere, and to regard strong US-European strategic ties as vital to Chinese interests. Their positive reaction to Vice President Bush's recent visit to Europe reflects the depth of their concern over the health of the Western alliance. []

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We believe China's change in tack toward Europe will produce only modest dividends. Demonstrating sympathy for the peace

This memorandum was prepared by [] the
China Division. Questions and comments are welcome []

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efforts to exploit differences within NATO, refusing to directly endorse the pipeline deals, and replaying firm US positions toward the Soviets without comment. China underscored its concern over NATO unity when the Chinese media characterized the US decision to lift the pipeline sanctions as a needed concession to reduce tensions in the Alliance. [REDACTED]

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Playing to Popular Opinion

We believe the turnaround in China's attitude toward the peace movement offers the clearest example of its new attentiveness to political currents in Western Europe. As late as the fall of 1981 Chinese media commentary still tended to portray the Soviets as behind the massive peace rallies and to accuse the Soviets of helping to fuel pacifist sentiments. The Chinese were apprehensive that the growing antinuclear sentiment in Europe would force the United States and its NATO allies to scrap their plans to deploy theater nuclear weapons. [REDACTED]

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Chinese treatment of the peace movement, however, began to shift significantly early last year as the movement grew stronger. [REDACTED]

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This [REDACTED] has been reflected in Chinese moves to show common cause with Western Europe's peace movement. In his speech to the 1982 UN Special Session on Disarmament, for example, then-Foreign Minister Huang Hua expressed "sympathy and understanding" for the peace movement and criticized both the United States and USSR for fueling the arms race. Huang also played to the gallery in Europe and elsewhere by modifying China's long-standing position on disarmament. He specified that China would cease weapons development and begin reductions in its own arsenals following certain steps by the United States and the USSR. Previously, the Chinese had only stated that "major progress" in reducing the nuclear arsenals of the superpowers was the precondition for similar Chinese moves. [REDACTED]

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By linking the USSR and United States as responsible for the arms race, we believe the Chinese are trying not only to cater to current anti-US sentiment in Western Europe, but also to thwart Soviet efforts to turn the peace movement to Moscow's advantage. In doing so, China may hope that over time it can help steer the peace movement away from positions that could damage Western Europe's defense posture. [REDACTED]

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Uncertainty over the eventual impact of the peace movement on European politics has also contributed to Beijing's decision to burnish its "progressive" credentials. [REDACTED]

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The Chinese therefore are likely to modulate their support for Western Europe's anti-nuclear sentiment according to the political fortunes of the peace movement. If the movement's political clout continues to increase, Beijing is certain to replay popular European sentiment toward the United States. [REDACTED]

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Seeking New Leftist Friends

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Changes in Beijing's long-standing approach to leftist parties in Western Europe reflect a similar Chinese interest in advancing its own political influence, especially at the expense of the Soviets. The dropping of earlier preconditions for fraternal ties--including a demonstration of independence from Moscow--led to a rapprochement last year with the French Communists and opened the door for new dealings with other pro-Soviet Communist parties in Europe considered anathema by Beijing since the 1960s. [REDACTED]

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China's willingness to deal with Moscow's closest allies on the European left offers Beijing several benefits. The Chinese have opened an avenue to exercise some influence on the French Communists. [REDACTED]

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The Chinese probably also believe that the opening to the French Communists will facilitate breakthroughs with other Soviet-leaning leftists in Europe and, perhaps, in the Third World. Authoritative Chinese commentary on Secretary General Marchais' visit in October underscored the necessity of agreeing to disagree on ideological and foreign policy issues and of "letting bygones be bygones," suggesting that Beijing may even want to hold out the possibility to Moscow of improving party-to-party ties under the right circumstances. The ambiguity in this signal to the CPSU serves Chinese interests by not unduly alarming the West while allowing Beijing flexibility to respond

to any Soviet reaction. The new relationship with the French Communists also offers China an opportunity to complete its reintegration into the international communist movement, a link that was severed in the early 1960s. [redacted]

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The Soviets, of course, may already have used the French Communists to explore China's willingness to move publicly toward a restoration of party relations. [redacted]

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Meanwhile the Chinese have continued to improve older relationships, such as those with the Italian and Spanish Communists, as well as the French Socialist Party. These long-established ties have continued to expand and now include regular visits by high-level officials, such as Simon Montero, a member of the Spanish Communist Party's Central Committee Secretariat, who travelled to Beijing in early 1982. [redacted]

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In addition, the Chinese are expanding their informal ties with other left-of-center and even some conservative parties. A representative of the Chinese party attended the British Labor Party Congress in October [redacted]

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China has maintained its contacts with politicians on the right, such as West Germany's Franz Josef Strauss. [redacted]

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Modernization: Europe's Role

The Chinese see a significant role for Europe in their stated goal of a vigorous, balanced expansion of China's economic "open door" policy. As part of this effort, Beijing seeks West European assistance in rejuvenating its aging industrial base and in removing economic bottlenecks in the energy, transportation, and communications sectors. At the same time, the Chinese are determined to open protectionist barriers in Europe, and enlarge their export market there. [redacted]

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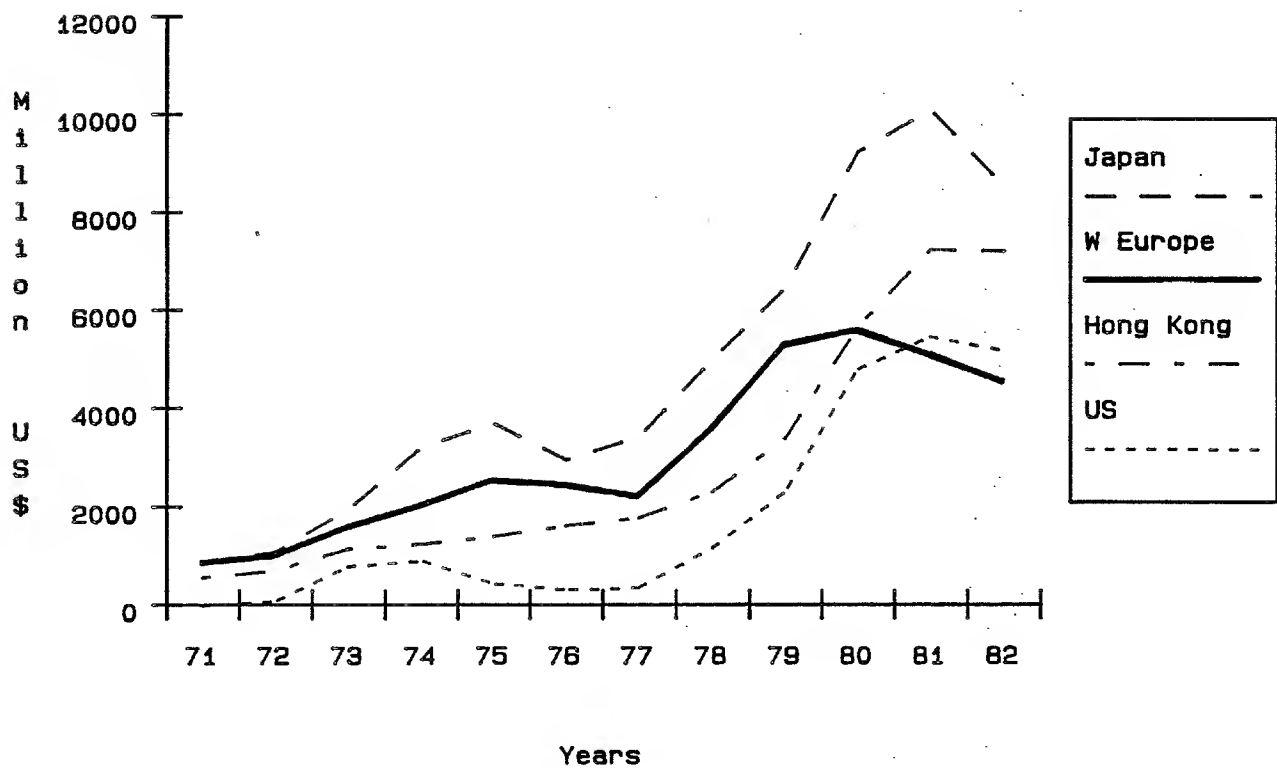
Beijing wants West European participation in its modernization drive in order to enhance political relations, and to avoid dependency on its other major trading partners, particularly the United States. The Chinese also may hope to use the prospect of turning to European sources as leverage to extract concessions from Washington on US technology and manufactured products. [redacted]

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Beijing has also benefited from Western Europe's development aid. West Germany, for example, signed a five-year agreement in October--worth about \$20 million annually--to expand technical and scientific cooperation in coal development, agriculture, management, and quality control. Belgium has extended small

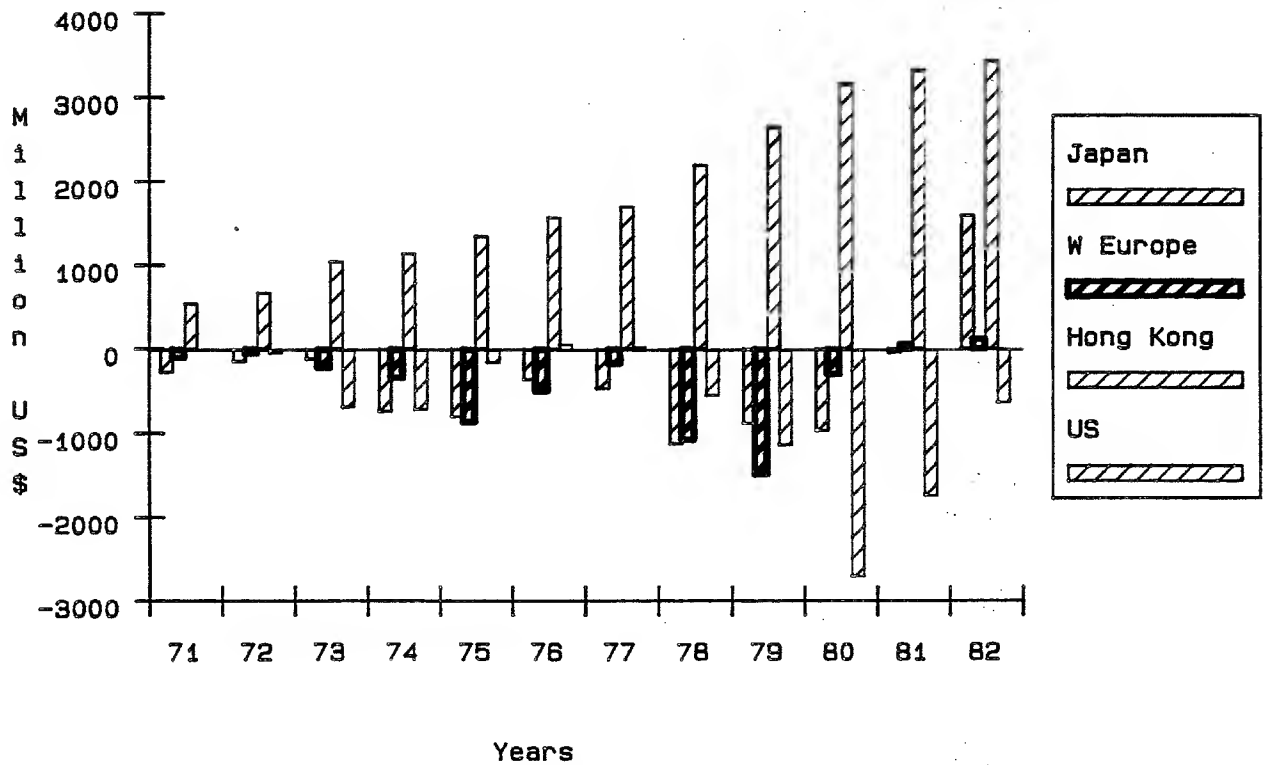
China: Total Trade with Major Partners

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China: Balance of Trade with Major Partners

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amounts of interest-free, 30-year aid funds. Chinese students and researchers continue studying in Western Europe; the United Kingdom alone hosts several hundred. []

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Despite Chinese interest in West European finished products, financing, and technology as alternatives for their modernization program, Sino-European trade has not expanded as much as the Europeans hoped. In addition to the general factors constraining China's foreign trade--including a lingering autarkic attitude--Western Europe has found it difficult to compete with the United States and Japan. []

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In 1978, Beijing aroused high expectations in European business circles when it opened bidding for more than \$50 billion in equipment and technology. The initiation of China's economic readjustment in 1979 and the suspension in 1981 of some \$2.6 billion in contracts with Japanese, Europeans, and US firms, however, shook the confidence of West European businesses. Although the Chinese signed compensatory agreements and have made other efforts to reassure West European investors, the Chinese have acknowledged that they have not yet succeeded in regaining European trust. []

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Overall Western European exports to China peaked in 1979 at some \$3.4 billion. Preliminary figures indicate that their exports last year declined to \$2.6 billion. West Germany retains its leading position among European exporters--40 percent--and along with France, Italy and the United Kingdom accounts for most of West Europe's exports to China. In total exports to China, West Germany stands fourth, behind Hong Kong, Japan and the United States. []

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In addition to their continued third place ranking behind Japan and the United States in total trade, Europeans have become disturbed over their declining trade surplus with China. After achieving a record \$1.5 billion surplus in 1979, Europe's trade with China swung into deficit last year by about \$100 million because of China's slashing of imports and increasing of exports to Western European markets. The Chinese also left their major commercial credit lines virtually untouched because of high interest rates. China even failed to draw on government-supported, low-interest imports credits. Trade with Western Europe, however, should pick up again if Beijing follows through with its plans to increase overall imports by 40 percent this year. []

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The Military Connection

Since the mid-1970s, Beijing's interest in conventional arms and its anti-Soviet policy have encouraged the Europeans to hold numerous negotiations with China on arms sales. But these efforts have also proven less successful than the Europeans expected. []

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Beijing's decisions in 1980 not to purchase either the British Harrier or the French HOT antitank missile--ostensibly for economic reasons--in particular dashed West European hopes for a lucrative arms market in China. The Europeans, however, probably misjudged Chinese intentions. Although there may have been some interest in the Chinese bureaucracy in concluding substantial arms packages, Beijing's extensive window-shopping probably was also intended to extract as much free technical information as possible. [REDACTED]

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Thus, the primary obstacle to major weapons transactions remains the gulf between China's interest in acquiring technology and production rights at low costs, and the European desire to sell large quantities of finished items. We believe the Chinese recognize they cannot quickly improve their military capabilities by buying substantial quantities of arms and other equipment from West Europe, because they lack the support structure and training capability necessary to integrate such weapons into their field units. Moreover, military modernization has a relatively low priority and the Chinese want to avoid dependence on foreign suppliers for the operation of their weapons systems. Accordingly, we believe the Chinese remain extremely reluctant to divert major resources from the civilian sector to foreign military purchases. [REDACTED]

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Thus far, in fact the Chinese have purchased only limited amounts of military equipment and production technology in Europe. They recently concluded a \$170 million deal with Britain to outfit two Luda-class destroyers. Beijing also expressed renewed interest last year in purchasing and coproducing military equipment:

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[REDACTED]
[REDACTED] General Secretary Hu Yaobang in August publicly announced China's conditional readiness to coproduce the Mirage fighter-bomber aircraft.

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Beijing pursues contacts and purchases in the West European military sector partly in order to induce the United States to provide more advanced technology and expertise. For example, the Chinese expressed public interest in the French Mirage fighter aircraft last summer, [REDACTED] mainly to remind Washington that China has alternatives to US high-technology exports. [REDACTED]

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We believe Beijing also wants to use these contacts to develop some modest Sino-European military cooperation, obtain access to sophisticated military thinking, and open a channel to address another, obviously receptive audience for its anti-Soviet message. The official visit last spring of Sweden's armed forces commander General Ljung typifies Chinese contacts with West European military officials. Ljung talked with both Premier Zhao and then Defense Minister Geng Biao on a broad range of international issues, and was treated to the Chinese standard vilification of Soviet ambitions. [REDACTED]

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China also has invited West European forces in recent years to "show-the-flag" in China. The stopover in Shanghai by a French Navy frigate in 1978 was the first by a West European combat vessel since 1949 and has been followed by visits by other European naval ships. The Chinese also have experimented with substantive exchanges with foreign military personnel, sending a naval delegation to the French Naval School in 1978. [REDACTED]

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We expect China to continue its cautious, largely symbolic, exchanges of military visits. Similarly, we expect Beijing to continue its pattern of signalling wide-ranging interests in military items, followed by drawn-out negotiations that play off competing suppliers, before making selective purchases. [REDACTED]

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Soviet Reaction

Despite the limited nature thus far of Chinese-European military links, Moscow has been disturbed by this development. The Soviet Union on numerous occasions has warned West European governments against arms sales. [REDACTED]

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[REDACTED] The USSR has periodically reminded the West Europeans [REDACTED] of its opposition to military sales or cooperation with China. A year ago, for example, Izvestiya suggested that Chinese contacts with West Europe's military establishment would enable China to maintain tension in the Far East. [REDACTED]

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Reality: Less Than Meets the Eye

Chinese leaders have sought to highlight the congruency of Chinese-European security concerns, but they recognize that their views on strategic matters--particularly their opposition to Moscow--differ considerably from the Europeans view. Even after the Soviet invasion of Afghanistan, which we believe the Chinese initially hoped would scuttle European detente policies, Foreign Minister Huang Hua found little support for his views during his tour of Western Europe in June 1980. [REDACTED]

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[REDACTED]

The smaller European states in general have sought to prevent relations with Beijing from damaging more valued ties with Moscow. Even London, whose views on the USSR most closely match Beijing's, does not accord relations with China a high priority.

[REDACTED]

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The Chinese thus cannot hope to play more than a marginal role in Europe's security picture. The Europeans view China as a developing Asian power with little influence in the West, or in Africa and the Middle East where Europe obtains its vital natural resources. The West Europeans continue to explore cooperation with Beijing, mainly in the hope of keeping China oriented toward the West.

[REDACTED]

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Although the West Europeans also want to increase trade with China, trade with the Soviet Union is much more extensive and important to them. For West Germany, for example, China in 1980 accounted for 0.5 percent of its total imports and 0.6 percent of its total exports. This ratio is even lower for the rest of Western Europe.

[REDACTED]

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